

# Investment Views

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## What Would Goldilocks Do?

We all crave certainty: a definitive verdict on whether investment markets are inflating into a bubble.

Yet if we attained that certainty, then what? Sell everything and watch from the side-lines, hoping further gains do not stretch on for years? Hedge meaningfully, which even if feasible will incur hefty fees for protection that might prove unnecessary and will significantly dampen your returns? Or move closer to the centre of the dancefloor, amplifying exposure because you want to feel part of the crowd?

Instead, let's borrow a page from a children's tale, Goldilocks. Bear with me (pun intended). An intrepid explorer of the bears' domain, Goldilocks sampled porridge, tested chairs and lay down in beds - not to declare one universally "best," but to find what suits her just right. Too hot? Pass. Too cold? No thanks. Just right? That's the keeper. In the hazy discussion about investment bubbles, the "just right" portfolio isn't about chasing consensus so that you can have the same conversations as everyone else – it is about tailoring your approach to your tolerance for heat, your appetite for size and your need for comfort.

In any event, the reality is that no-one can pinpoint a bubble in real time. Sure, pundits expend endless hot air debating it, but as the saying goes, "those who know don't say; those who say don't know." Today, the internet amplifies the chorus of the clueless, although even veteran analysts, after solemnly nodding that bubbles are impossible to call, proceed to dive headfirst into their own predictions. As a cautionary tale, consider Fed Chairman Alan Greenspan's 1996 warning of "irrational exuberance." By many metrics, he nailed it - yet the S&P 500 doubled in the three years that followed. A little certainty can be a dangerous thing, with premature decisions deeply impacting your portfolio's long-term outcome.

The smarter-than-average bear accepts the uncertainty that comes with scepticism and gets back to the day job: vigilance and weighing opportunities against risks, without becoming entranced by the siren-song of the crowd. With that caveat, let us outline the current tug-of-war below.

On one side, the "bubble" camp brandishes some eye-popping stats. The S&P 500 notched its sixth straight monthly gain in October, while the NASDAQ hit seven - their strongest streaks since 2021 and 2018 respectively. Nvidia crossed the \$5 trillion threshold, eclipsing the combined market caps of the German, French and Italian flagship indices. That is up from \$4 trillion just three months ago. AI capex is extraordinary, with a great deal of execution and delivery required merely to fulfil current expectations, whilst the circularity of recent deals only entwines outcomes and dependencies even further. Market concentration is beginning to look almost cartel-like, and the opacity of private credit raises both hackles and risks - insurers engaging in "ratings arbitrage" by shopping for better scores on their private credit assets, along with the recent bankruptcies of automotive lender Tricolor and car parts company First Brands, are ominous. Long-term valuation gauges also suggest caution: the Buffett Indicator (total U.S. stock market value as a share of GNP, Warren Buffett's gold standard) hovers at 225%, far higher than its typical range of 125-175%. The Shiller CAPE ratio, smoothing earnings over a decade to iron out cycles, sits around 37x, firmly in the top decile.

Flip to the "no bubble" team, and the rebuttals pack equal punch. Earnings are surging, with growth forecasts holding firm. Cash flows are genuine and balance sheets fortress-like. Tech's AI binge stems from prudent, debt-free capital expenditure by battle-tested behemoths, not leveraged gambles by ne'er-do-wells, a key contrast to the 1990's dotcom IPO boom. AI is not smoke and mirrors – it is a genuine productivity revolution, bankrolled by real, if obscene, cash hoards. Amazon Web Services just logged its best growth in years. Valuations? Stretched, yes, but tame compared to past manias, and buoyed by profit explosions. Howard Marks, the oracle of Oaktree Capital whose 2000 "bubble.com" memo foresaw the dot-com implosion, calls this an "early innings" bull market, not a froth-fuelled frenzy. Enthusiasm has not reached contagion yet - any pullback will draw in record cash from the \$7 trillion that has been sitting it out, especially given the Fed's recent rate-cutting pivot. Even geopolitics is potentially softening: trade war jitters have eased, the U.S. and China are talking, while cease-fires glimmer in Gaza and Ukraine. And remember: when everyone screams "bubble," history suggests it is often only just getting warmed up.

The crux? Every bull thesis has its bear claw. We will only identify the bubble in the rear view mirror, years hence, if at all. Crystal-ball gazers? Tune them out.

Back to Goldilocks. Not a lady to agonize over the bears' verdict or the porridge's pedigree - she sampled, assessed and selected based on her needs: not too lumpy for her spoon, not too wobbly for her frame, not too firm for her rest. Your portfolio demands the same bespoke fit. If it keeps you awake, it is too aggressive. If you feel like you have been left out in the cold to gaze in at the fire through the frosted window, it is too timid. "Just right" should make you feel warm and cosy, by aligning exposure to your risk appetite, timeline and goals.

Have a conversation with your wealth manager. Craft the appropriate mix, and the bears' growl loses its bite, meaning you will not flinch if they lumber in. Of course, when the bull finally hibernates, the "I told you so" reels will abound. Just remember, even a broken clock ticks true twice a day, but you would not want to use it to keep time. In the end, your steady spoon - your personalized path - is what will comfortably fill your bowl and nourish you.



Source: Sora

When Goldilocks determined what was right for her she found she stopped worrying about the bears

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29 Queen Anne's Gate, London SW1H 9BU, England  
Tel +44 (0) 20 7222 8081, Fax +44 (0) 20 7227 8440, Email [info@bentleyreid.com](mailto:info@bentleyreid.com)

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